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BEFORE THE ARIZONA CORPORATION COMMISSION

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**COMMISSIONERS**
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| | |
|---|---|
| IN THE MATTER OF THE APPLICATION OF SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC. FOR A HEARING TO DETERMINE THE FAIR VALUE OF ITS PROPERTY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RETURN THEREON, TO APPROVE RATES DESIGNED TO DEVELOP SUCH RETURN AND FOR RELATED APPROVALS. | DOCKET NO. E-01575A-08-0328<br><br>**STAFF'S NOTICE OF FILING** |

Staff of the Arizona Corporation Commission hereby provides notice of filing the Summaries of the Testimony of Crystal S. Brown, Prem K. Bahl, Steve Irvine, Jerry E. Mendl, Julie McNeely-Kirwin and William Musgrove in the above-referenced matter.

RESPECTFULLY SUBMITTED this 17th day of April, 2009.

Wesley C. Van Cleve, Attorney
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Original and thirteen (13) copies of the foregoing were filed this 17th day of April, 2009 with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Arizona Corporation Commission
DOCKETED

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Copies of the foregoing mailed this 17th day of April, 2009 to:

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# SUMMARY OF TESTIMONY
# OF
# CRYSTAL S. BROWN

## SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE
## DOCKET NO. E-01575A-08-0328

Sulphur Springs Valley Electric Cooperative, Inc. ("Sulphur Springs" or "Cooperative") is a certificated Arizona-based non-profit rural electric distribution cooperative. Sulphur Springs provides power and energy to approximately 50,000 customers in most of Cochise County and portions of Santa Cruz, Pima, and Graham counties, Arizona.

Sulphur Springs filed an application for a permanent rate increase on June 30, 2008. The Cooperative stated that its adjusted test year operating income was $6,251,098 resulting in a 4.48 percent rate of return and a 0.82 operating times interest earned ratio ("TIER").

Sulphur Springs proposed a $10,881,590, or 11.75 percent, revenue increase from $92,613,559 to $103,495,149. The proposed revenue requirement would produce an operating margin of $17,132,688 for a 12.51 percent rate of return on an original cost rate base of $136,903,293. Sulphur Springs requested a 2.86 TIER.

Staff recommends total annual revenues of $100,420,597 resulting in a $15,365,515 operating margin or 11.56 percent rate of return on a $132,886,202 rate base. The following is a summary of Staff's testimony:

Operating Income:

a. <u>2008 Fort Huachuca Margin Increase</u> – In recognition of new information provided by the Cooperative, Staff agrees with the Cooperative to exclude the 2008 Fort Huachuca margin increase.
b. <u>Post-Test Year Payroll Expenses</u> – Staff continues to recommend exclusion of the post-test year payroll expenses.
c. <u>Charitable Contributions and Other Expenses</u> – Staff continues to recommend exclusion of the charitable contribution and other expenses.
d. <u>Incentive Pay</u> – Staff continues to recommend exclusion of the incentive pay.
e. <u>Rate Case Expense</u> – Staff continues to recommend total rate case expense of $100,000.
f. <u>TIER and Debt Service Coverage Ratio ("DSC")</u> – Staff recommends a 2.34 operating TIER and a 2.12 DSC.

# SUMMARY OF TESTIMONY
# OF
# PREM K. BAHL

## SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE
## DOCKET NO. E-01575A-08-0328

This is a summary of Engineering Staff's testimony in reference to the Sulphur Springs Electric Cooperative, Inc.'s ("SSVEC" or "Cooperative") application for a general rate increase. Staff's testimony encompasses Staff's engineering evaluation of the Cooperative's inspection of SSVEC's distribution system and of its current operations and maintenance, and of SSVEC's future plans to upgrade and expand its system. The testimony also addresses Staff's analysis of the Cooperative's Cost of Service Study ("COSS"), conclusions and recommendations.

## CONCLUSIONS

Based on Staff's engineering inspection of SSVEC's electric system, and evaluation and analysis of SSVEC's Cost of Service study results, Staff concludes as follows:

1. That SSVEC:

    a. is operating and maintaining its electrical system properly,
    b. is carrying out system improvements, upgrades and new additions to meet the current and projected load of the Cooperative in an efficient and reliable manner,
    c. has an acceptable level of system losses consistent with the industry guidelines,
    d. is working with the Cochise County Transmission study group to implement the directions issued in the 5th BTA Order (Decision No. 70635),
    e. has a satisfactory record of service interruptions in the historic period between 2004 and 2007, showing an average of 2.09 outage hours per consumer per year,
    f. has evaluated numerous options regarding the Sonoita Reliability Project ("SRP") and its associated 69kV line to Sonoita. The proposed SRP will improve service reliability in Sonoita, Patagonia and Elgin service areas.

2. That SSVEC has used its COSS model for the bundled rate filing appropriately. The model used by SSVEC is consistent with what the Commission approved for use in another cooperative rate case.

3. That, based on the evaluation of the COSS model utilized by SSVEC, the results are satisfactory.

## RECOMMENDATIONS

Based on the aforementioned conclusions, Staff recommends that:

1. SSVEC work with other entities, such as Arizona Public Service Company, Tucson Electric Company, and Southwest Transmission Cooperative to establish "continuity" of service, as ordered by the Commission in the fifth BTA in Decision No. 70635, in the Cochise County area, including the Sierra Vista area.

2. SSVEC continue to upgrade its 69 kV sub-transmission and distribution system to improve system performance and reliability for its members.

3. SSVEC continue with its wooden pole replacement program.

4. Commission accept SSVEC's Cost of Service Study for use in this case.

# SUMMARY OF TESTIMONY
# OF
# STEVE IRVINE

## SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE
## DOCKET NO. E-01575A-08-0328

### Direct Testimony

- Staff recommends that SSVEC file with Docket Control a revised version of the DSM program description having removed references to the Time of Use ("TOU") rates and controlled rate program for irrigators, and having made other conforming changes, when filing an application for approval of new DSM programs.

- Staff recommends that costs prudently incurred in connection with Commission-approved DSM activities be recovered entirely through a DSM adjustment tariff.

- Staff recommends that Commission-approved DSM costs should be assessed to all SSVEC electric customers as a clearly labeled single line item per kWh charge on customer bills.

- Staff recommends, should the Commission approve SSVEC's recommendation to include some part of DSM program expense recovery in base rates, that the Commission also clarify that a negative DSM adjustor may be used to lower DSM program expense recovery below the rate included in base rates.

- Staff recommends that SSVEC continue to report on DSM program expenses semi-annually as it does presently, except with revisions as discussed herein.

- Staff recommends that SSVEC file the DSM program expense reports in Docket Control and that SSVEC redact any personal information such as the names and addresses associated with customers participating in DSM programs.

- Staff recommends that SSVEC's DSM program expense reports include the following: (i) the number of measures installed/homes built/participation levels; (ii) copies of marketing materials; (iii) costs incurred during the reporting period disaggregated by type of cost, such as administrative costs, rebates, and monitoring costs; (iv) gas and electric savings as determined by the monitoring and evaluation process; (v) estimated environmental savings; (vi) the total amount of the program budget spent during the previous six months and, in the end of year report, during the calendar year; (ix) the amount spent since the inception of the program; (vii) any significant impacts on program cost-effectiveness; (ix) descriptions of any problems and proposed solutions, including movements of funding from one program to another; (x) any major changes, including termination of the program.

- Staff recommends that SSVEC submit to the Commission, through Docket Control a filing, by April 1st of each year, that includes its proposed new DSM adjustor rate. Staff further recommends that the filing be considered and adjudicated by the Commission in Open Meeting.

- Staff recommends that SSVEC's DSM adjustor rate be reset annually on June 1st of each year. Staff further recommends that the per kWh rate be based upon currently projected DSM costs for that year (the year for which the calculation is being made), adjusted by the previous year's over- or under-collection, divided by projected retail sales (kWh) for that same year.

- Staff recommends that SSVEC's annually proposed new DSM adjustor rate become effective on June 1st after approval by the Commission.

- Staff recommends that SSVEC submit proposed programs to the Commission for approval.

- Staff recommends that SSVEC file an application requesting approval of the new DSM programs proposed by SSVEC in this application.

- Staff recommends that the initial DSM adjustor rate be set to recover prudently incurred DSM costs associated only with approved programs presently in place.

- Staff recommends that the initial adjustor rate be set at $0.000256 per kWh until the annual reset of the adjustor rate.

- Staff recommends that prudently incurred costs associated with approved DSM programs that have been factored into the Wholesale Power Cost Adjustor ("WPCA") account balance remain in the WPCA account balance.

- Staff recommends that the Commission authorize an adjustor mechanism for SSVEC to replace the REST Surcharge.

- Staff recommends that SSVEC file with the Commission, within 30 days of the date of the decision in this case, a REST tariff with conforming changes to reflect recovery through the adjustor rather than through the surcharge used presently.

**Surrebuttal Testimony**

Staff makes the following conclusions and recommendations in response to SSVEC's rebuttal testimony:

- Staff agrees that Staff Recommendation No. 4 is now moot.

- Staff recommends that the Company file the DSM program expense reports **by** March 1st and September 1st rather than **on** March 1st and September 1st.

- Staff continues to support Recommendation No. 9, which is that SSVEC's annually proposed new DSM adjustor rate become effective on June 1st after approval by the Commission.
- Regarding the Company's response to Recommendation No. 10, it appears to Staff that the proposal by the Company envisions that a new program's expenses would be reported in the semi-annual reports but not included in the DSM adjustor for recovery until such time as the program was approved by the Commission. Should this interpretation of the Company's proposal be accurate, Staff agrees with the Company's proposal.

- Staff will endeavor to analyze the proposed programs including the information provided by the Company in support of its proposals and subsequently make recommendations regarding the proposed programs by way of supplemental testimony. Should time not permit sufficient analysis, Staff continues to recommend that the Company file a new application requesting approval of the new DSM programs that SSVEC is proposing in the instant application.

- Staff agrees with the Company's description of the appropriate treatment of the existing program expenses, 2007 and 2008 program expenses under Staff review, and 2009 expenses.

# SUMMARY OF TESTIMONY
# OF JULIE MCNEELY-KIRWAN

## SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.
## DOCKET NO. E-01575A-08-0328

Staff's direct and surrebuttal testimony discusses and makes recommendations regarding Sulphur Spring Valley Electric Cooperative, Inc.'s base cost of power, Wholesale Power Cost Adjustment ('WPCA") mechanism and it Service Conditions. Staff's testimony is summarized below:

- The base cost of power should be established at \$0.072127 per kWh, as proposed by Sulphur Springs Valley Electric Cooperative, Inc. ("SSVEC").
- To limit potential future rate shocks, SSVEC should be required to submit future increases in its WPCA rate to the Commission for approval.
- With respect to its WPCA bank balance, SSVEC should be required to establish an over-collected threshold of \$1 million and an under-collected threshold of \$2 million.
- The Cooperative should be allowed to file for an increase based on reasonable projections that the under-collected threshold would be reached within six months, and remain at or over that threshold for two months or more.
- The WPCA mechanism should be revised to allow recovery of costs associated with owned generation, specifically recovery of costs for the following FERC Accounts: 501, 518, 547, 555 and 565.
- The name of the Wholesale Power Cost Adjustment ("WPCA") mechanism should be changed to "Wholesale Power and Fuel Cost Adjustment" ("WPFCA") mechanism, in order to reflect the recovery of costs associated with owned generation.
- DSM cost recovery should be moved out of the WPCA (or WPFCA) mechanism and into a specific DSM adjustor.
- An officer of SSVEC should sign off on SSVEC's adjustor reports as true and accurate to the best of his or her information.
- SSVEC should be allowed to eliminate the construction allowance for line extensions in all classes.

- SSVEC's Service Conditions should be revised to make clear that it is impermissible to disconnect customers falling under Arizona Administrative Code R14-2-211.5.

- SSVEC should make additional revisions to its Service Conditions in accordance with Staff's direct testimony.

# SUMMARY OF TESTIMONY OF JERRY E. MENDL

The Arizona Corporation Commission (ACC) contracted with MSB Energy Associates, Inc. (MSB), to evaluate power purchases made by Sulphur Springs Valley Electric Cooperative, Inc. (SSVEC) since SSVEC changed from its status as a full requirements customer of Arizona Electric Power Cooperative (AEPCO) on January 1, 2008. I reviewed SSVEC's procurement process for power purchases from the spot market and suppliers other than the partial requirements service from Arizona Electric Power Cooperative (AEPCO), identified deficiencies in SSVEC's power procurement process and made recommendations for improvements.

I concluded that the negotiated prices SSVEC paid for power from third party suppliers were significantly higher than those paid under the AEPCO contract or the spot market. I also concluded that future prices for third party power are likely to be relatively lower compared to market prices because SSVEC's procedures and organization (which were in transition in 2008 as a result of conversion from full to partial requirements service) would evolve to result in improved performance.

To rectify the deficiencies that I identified in SSVEC's organization structure and power procurement procedures, I recommend that the Commission direct SSVEC to:

- Define and document the responsibilities and limits of authority to make decisions about power supplies and purchases;
- Establish and document a clearly enforceable set of checks and balances on the authority of personnel involved in power supply planning and power procurement;
- Develop written procedures and policies for power supply planning and power procurement and formally approve them. These procedures and policies should ensure that SSVEC considers the full spectrum of resources available to it, implements the selected resources and is held accountable for its planning and procurement actions;
- Formalize and document the communication of power supply planning and procurement strategies and procedures to the responsible personnel;
- Develop a mechanism to monitor changing market conditions and make deviations from the adopted policies/procedures when appropriate (temporary changes in conditions/circumstances); and
- Develop a mechanism to update the written policies/procedures when permanent changes in conditions/circumstances warrant.

To ensure that SSVEC considers the full spectrum of resources and procurement options available to it, I recommend that:

- The Commission direct SSVEC to assess electricity market conditions and adapt its power procurement procedures and alternatives in response to changes in markets. If the electricity market is not sufficiently vibrant and liquid, the market will not be a reliable source of inexpensive power and will provide little opportunity to improve upon the AEPCO full requirements service;

- The Commission direct SSVEC to verify and document that WAPA balancing transactions are conducted at market prices and that they are done in a manner consistent with SSVEC's interests;
- SSVEC continue to evaluate physical hedges to market prices, including long term purchased power options, long term joint generation ownership options, and also the development of a local peaking generation facility;
- SSVEC evaluate demand response programs and energy efficiency programs to reduce market exposure;
- SSVEC evaluate financial hedges and laddered purchasing strategies to reduce market price volatility; and
- SSVEC evaluate returning to full requirements service if SSVEC cannot demonstrate an actual benefit from utilizing electricity markets to supplement partial requirements services from AEPCO.

Based on SSVEC's rebuttal testimony, SSVEC appears to believe that it would be inappropriate for SSVEC to develop and adopt written and documented power planning and procurement policies and procedures. I strongly disagree. While I acknowledge that SSVEC will need some time to transition to its new and increased role in power procurement since ceasing to be a full requirements customer of AEPCO, that does not lessen the need for a well-defined and well-conceived power planning and procurement process. I recommend that SSVEC be given some time to develop, adopt and implement its power planning and procurement process, and that Staff conduct a prudence review in the next rate case or within three years.

# SUMMARY OF TESTIMONY
# OF
# WILLIAM MUSGROVE

## SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE
## DOCKET NO. E-01575A-08-0328

Direct testimony prepared by William Musgrove and docketed February 17, 2009 addresses Revenue Allocation and Rate Design, Tariff Changes, Service Charge Fees, Unbundled Tariffs and the need for a Bill Estimation Tariff. Staff's recommendations are summarized below:

1. Revenue Allocation and Rate Design
   Staff recommends that Sulphur Springs be granted a revenue increase in the amount of $16,532,128 or 21.28 percent. A rate class summary of these data is depicted on page 6 of Staff's testimony.

2. Tariff Changes
   Sulphur Springs proposes increasing the number of on-peak time-of-use hours to include Sundays. Staff recommends retaining the existing time-of-use time periods that exclude on-peak Sunday hours.

3. Service Charge Fees
   Staff recommends increasing service charge revenues $344,965.

4. Unbundled Tariffs
   Sulphur Springs' unbundled rates are adequate, because at this time, no customers are receiving unbundled service from Sulphur Springs.

5. Bill Estimation Tariff
   Within thirty days of a decision in this matter, Staff recommends that Sulphur Springs be required to submit, through Docket Control for Commission approval, a separate tariff describing its bill estimation methodologies.